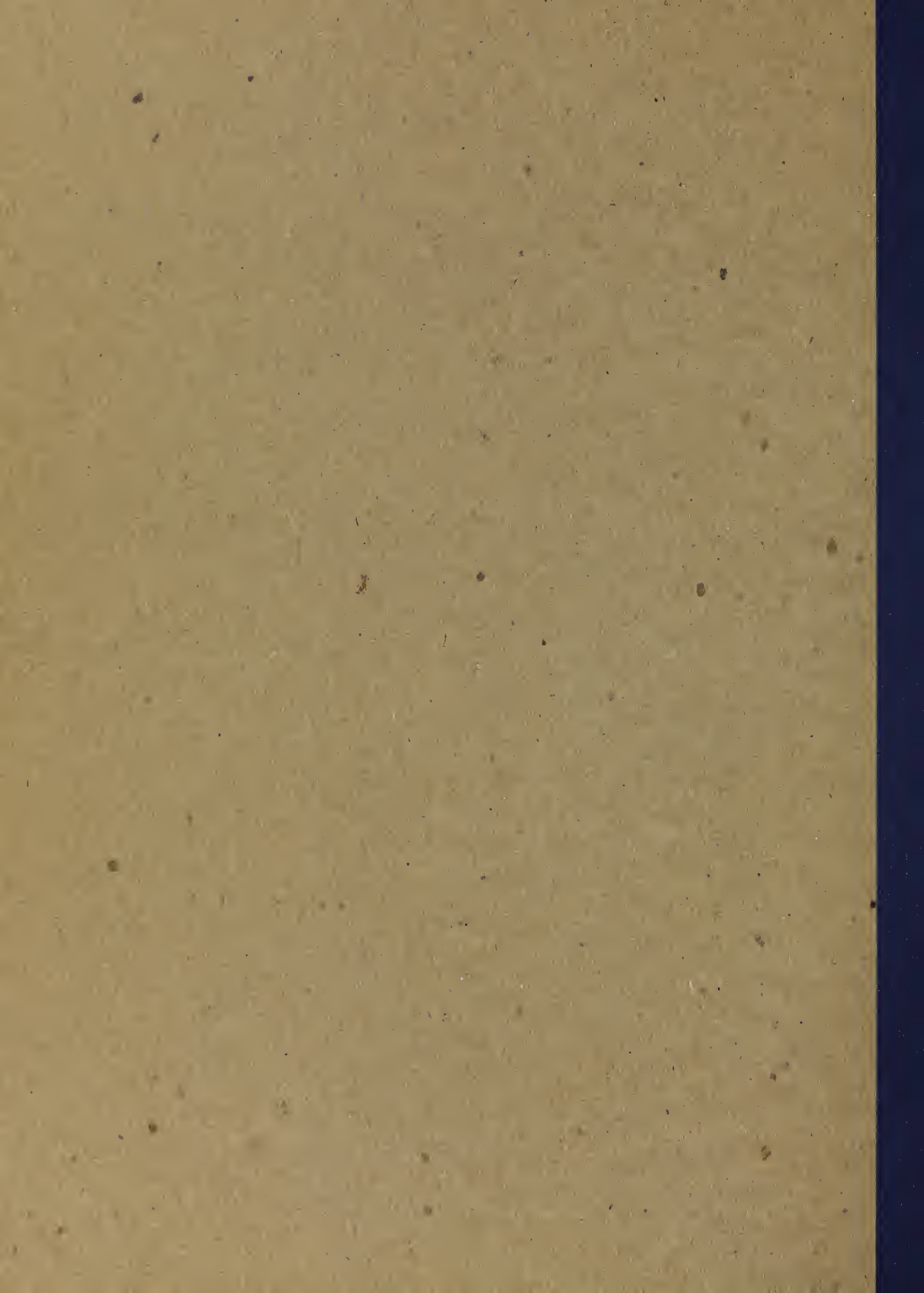






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THE FINANCIAL AFFAIRS OF

MCCARTHY

**15,000 Words from
the Official Senate
Report, Now
Obtainable Nowhere
Else!**

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no. 1219

MAIN



**BURIED BUT NOT FORGOTTEN**

MOST OF US are hard up. Many of us borrow money from banks at times. There's nothing wrong in that. Very few of us are in a position to call on the bank president to violate the banking laws by giving us loans beyond the legal limits and without sufficient collateral.

That's what makes the story of the financial dealings of Sen. Joseph McCarthy such fascinating reading. For instance, when Matt Schuh, President of the Appleton State Bank, told the Senator that his collateral would have to be sold to bring his loan back within legal limits, McCarthy replied on June 4, 1949:

Now, damn it, Matt, don't just decide it is a lot easier to sell out my collateral and get rid of your ulcers, but extend yourself and see if you can't do something about this smaller note. I don't know how I shall be able to return the favor, except perhaps by waiting until you retire and then get a Republican President to appoint you a Special Advisor to the Senate—on financial matters.

The letter is published in a Senate Subcommittee report. Regrettably, by now it's a collector's item. Just 2,500 copies were printed, and no more will be printed if McCarthy has his way.

McCarthy's way was made plain from the day the Subcommittee met, in August, 1951, to consider the charge that he was unfit to serve in our Senate. He called the charge a Communist smear. The Subcommittee invited McCarthy to appear. He refused, denying the Subcommittee's jurisdiction. The Subcommittee invited him to raise the question on the Senate floor. He refused to do that. So the Subcommittee placed McCarthy's challenge before the Senate. By a unanimous vote of 60 to 0 the Senate upheld the Subcommittee. Yet McCarthy still refused to testify. The Subcommittee concluded:

"Such action on the part of Senator McCarthy might appear to reflect a disdain and contempt for the rules and wishes of the entire Senate body. . . ." Disdain, contempt and pressure! Three Senators left the Subcommittee under McCarthy's pressure. But two Democrats and a Republican stayed on. As the new Senate met, in January, 1953, Sen. Thomas Hennings of Missouri, Sen. Carl Hayden of Arizona, and Sen. Robert Hendrickson of New Jersey, submitted their report, and forwarded it for action to the Attorney General, and the Commissioner of Internal Revenue.

Well? Two months passed and no hint was given that action might be taken. So, on February 27, 1953, we

addressed the following letter to the Attorney General and a similar one to the Commissioner of Internal Revenue.

Dear Mr. Brownell:

On January 2, 1953, the Subcommittee on Privileges and Elections of the Senate Rules Committee submitted its report on S. Res. 187, resulting from an investigation of the affairs of Sen. Joseph McCarthy of Wisconsin pursuant to a Resolution introduced by Sen. William Benton of Connecticut. Subsequently, the Subcommittee transmitted the report and its files in the matter to the Department of Justice. We would be grateful for answers to the following questions.

1. What action has the Department of Justice taken pursuant to the Report, and what action is contemplated?

2. The Report (p. 22) indicates that Senator McCarthy diverted to his own use monies contributed to him for other purposes, in apparent violation of 18 USCA sec. 654 and 18 USCA sec. 1914. The Statute of Limitations may expire on these actions in September, 1953. Does the Department intend to take action on this matter before the Statute expires?

3. The Report (p. 23) raises the question whether Senator McCarthy used inside information in order to trade in the soy bean market. Is this question being investigated?

4. At page 37, the Report notes that of \$172,623.18 deposited by Senator McCarthy from January 1, 1948, to November 12, 1952, a total of \$59,592.52 has not been identified as to source including approximately \$19,000 deposited in currency. During the same period, his administrative assistant and landlord, Ray Kiermas, deposited \$96,921.26, of which \$44,908.43 (including \$29,230 in currency) could not be traced to its source. At page 33, the Report points out that during 1946, Senator McCarthy reduced his bank loans \$28,401.06 from funds which could not be traced; at page 34 it points out that a total of \$39,900.89 was paid off on this loan from untraced funds. According to our computation, this means that McCarthy and Kiermas had as much as \$144,501.84 of income from undisclosed sources. Since the Subcommittee had available McCarthy's and Kiermas' Federal and State income tax returns, the inference is clear that the source of these funds was not disclosed for income tax purposes, in apparent violation of 26 USCA, secs. 145 (a) and (b) and Wisconsin Statutes 71.11 (41) and (42). What action is the Department taking, or does it contemplate, on this matter?

It will be observed that the Report, at page 36, notes that Senator McCarthy has violated Federal and State income tax statutes in connection with interest manipulations on his Appleton Bank loans, which makes it the more probable that violations have occurred in connection with the matters covered by the Report.

We will appreciate a prompt reply.

MS:hbc

Sincerely,
S/ Michael Straight

We asked for an early answer. Commissioner T. Coleman Andrews replied that the matter "will receive most careful consideration in connection with the determination of the tax liability of the taxpayer involved." We have had no answer from the Attorney General.

OFFICIAL SENATE REPORT:

THE FINANCIAL AFFAIRS OF McCARTHY

FOR CONDUCT *unbecoming a member of our highest legislative body, a man may be expelled from the Senate of the United States.* Accordingly, on August 6, 1951, Sen. William Benton of Connecticut called upon the Senate to determine whether expulsion proceedings should be instituted against Sen. Joseph R. McCarthy.

For the next 14 months, the Senate Subcommittee on Privileges and Elections worked to obtain the facts. It was handicapped because, in the Subcommittee's own words, "Senator McCarthy deliberately set out to thwart any investigation of him by obscuring the real issue . . . by charges of lack of jurisdiction, smear, and Communist-inspired persecution." Since it was able only to open up the problems raised, the Subcommittee submitted its report in the form of six questions, which McCarthy refused to answer, with its comments. The following pages contain the official text of the Subcommittee's report. Deletions made for reasons of space omit nothing germane to the issues involved.—NR Editor's note.

Whether Under the Circumstances It Was Proper for Senator McCarthy To Receive \$10,000 from the Lustron Corporation

DURING the 80th Congress, Senator McCarthy was a member of the Banking and Currency Committee, which had jurisdiction over both the RFC and the Housing Agencies, as well as the Committee on Expenditures in the Executive Departments, which was also interested in some of the Lustron operations.

The Lustron prefabricated steel house, endorsed by various veteran and other organizations and sponsored by the Housing Agencies was ultimately financed by the RFC, over its initial objection due to the fact that the private-risk capital involved was negligible. A series of seven loans totaling \$37,500,000 were made between June 30, 1947, and August 29, 1949.

The venture was a failure; the RFC instituted foreclosure February 14, 1950, and the loss to the government will reportedly exceed \$30 million. Incident to a subsequent inquiry by the Senate Subcommittee on RFC, it was developed that Lustron had been mismanaged; that frauds had been practiced upon it; and that excessive salaries were paid officials, such as E. Merl Young, because of alleged influence. The payment of the \$10,000 Lustron fee to Senator McCarthy was also referred to.

During the pertinent period of the Lustron operations, both Lustron and the RFC were particularly sensitive to the will of Congress; Lustron because, aside from an initial relatively negligible investment, it was entirely financed by public funds; the RFC because its authority expired as of June 30, 1947, and Congress was obliged to temporarily extend it for one year.

On January 14-15, 1948, the Senate Banking and Currency Committee, at Washington hearings, developed through Lustron president, Carl Strandlund, that he had been advised of his need for Congressional support of his venture and that he accordingly did see many

Senators and Congressmen to present the merits of his project.

Senator McCarthy, a sponsor of the resolution of July, 1947, which created the Joint Committee on Housing, took an active part as Vice-Chairman, in its nationwide hearings on housing conditions. Upon the completion of the housing inquiry on March 15, 1948, Senator McCarthy filed his own report reflecting his views on housing and related proposed legislation, and favored encouragement of mass-produced homes. He particularly commended the Housing and Home Finance Administration and recommended that Administrator Foley's salary be increased.

Various amendments and additions to the Housing Act, some of which were sponsored by Senator McCarthy, were ultimately approved by the Senate and were incorporated into the related housing laws. Section 102 of Public Law 901 authorized the RFC to make loans to pre-fab manufacturers, aggregating no more than \$50 million. This provision gave the RFC additional funds and authority to make its third Lustron loan of \$7 million on February 14, 1949, as well as the subsequent loans. The Act also provided for an increase in the salary of the HHFA Administrator.

A few days subsequent to the enactment of the new Housing Act, Senator McCarthy contacted Administrator Foley to request his assistance for Miss Jean Kerr, of his office, who was working on a housing manuscript. The HHFA co-operated and assisted her in the compilation of data through December, 1948. HHFA Administrator Foley, in a letter dated February 23, 1951, to Senator Maybank, Chairman of the Senate Committee on Banking and Currency, outlined in detail the part played by his agency in the preparation of Senator McCarthy's housing booklet, their review and corrections of three separate drafts.

These Subcommittee hearings of May, 1952, developed that Senator McCarthy approached Strandlund

during October of 1948, setting a price of \$10,000 for his housing manuscript, which was "not in publishable form," and that Strandlund agreed to it without any prior consultation with his public relations or executive staff, or notification to the RFC, and at a time when Lustron had not completed its machinery and tooling installation, had a huge backlog of orders and had completed only a few sample houses for demonstration purposes. . . .

To appreciate the urgency of the hasty negotiations with Lustron to obtain a \$10,000 fee on November 12, 1948, it is essential that we consider Senator McCarthy's over-extended debt position at the Appleton State Bank, which became quite desperate during September through November of 1948. Although the bank had notified him that it was essential that his total bank debt of \$72,943.96 be reduced or his collateral liquidated, Senator McCarthy did not use the Lustron fee for this purpose but bought stock with it which he pledged as additional collateral for the loan. The Lustron check for \$10,000, dated November 12, 1948, issued to "Joseph R. McCarthy," was endorsed in blank over to Wayne Hummer and Company, the Senator's broker to purchase additional stock of the Seaboard Airlines Railroad.

It may or may not be significant that the Seaboard Airlines Railroad was also financed by the RFC and at the time indebted to the RFC in excess of \$15 million. Our inquiry developed that during October, 1948, Senator McCarthy purchased 1,500 shares of Seaboard common stock at an average price of \$22 per share; that this railroad had been in receivership since 1930, came out of reorganization in 1946 to be operated under a voting trust arrangement through April 1, 1951, and that the Lustron \$10,000 fee was used to increase his Seaboard holdings to 1,950 shares. These holdings were pledged by Senator McCarthy to support his Appleton bank loans. While it is not known whether Senator McCarthy's information with respect to this stock had anything to do with his position as a US Senator, it is interesting to note that McCarthy suggested speculation in Seaboard stock to others. . . .

Our inquiry developed information which reflected that at the time of Senator McCarthy's purchases of Seaboard stock, it did not appear to an "outsider," or to the uninformed, to be either a good investment or speculation, particularly since no dividends had been declared since long prior to receivership in 1930, and, further, because the common stock was encumbered by the voting trust agreement.

Although the depreciation of the stock market had

its consequent effect upon his pledged collateral, and Senator McCarthy was obliged to sell 250 shares of Seaboard in 1949 and 1950 at a loss, he resisted the bank's suggestion that the balance be liquidated, and on August 25, 1950, advised the Appleton State Bank that he had checked with some of the directors, who advised against the sale. Senator McCarthy held 1,700 shares until the RFC had disposed of its Seaboard holdings and, on September 12, 1951, he sold 1,000 shares for a net profit of \$35,614.75. . . .

Seaboard was quoted recently on the New York Stock Exchange at \$113.

The Subcommittee extended to Senator McCarthy, on May 7, 1952, the opportunity to appear at the scheduled open hearings on Lustron for the purpose of presenting testimony relating to this specific charge, as to the Lustron fee. He ignored the invitation but in a sardonic letter dated May 11, 1952, he discussed the Subcommittee's misfortune in being deprived of its "star witness." (The person referred to was Robert Byers, Columbus, Ohio, builder, who apparently just prior to the Subcommittee's May, 1952, hearings had a breakdown.) Senator McCarthy said:

If only you had set the hearings 10 days earlier before the Judge committed your star witness to an institution for the criminally insane, you would not have been deprived of this important link in the chain of evidence.

. . . It was the same Robert Byers who engaged Senator McCarthy on two separate occasions to appear at promotional dinners at Columbus, Ohio, for a fee of \$500 and expenses in connection with the Byers' Housing Project. It would also appear to be the same Robert Byers to whom Senator McCarthy referred on page five of his individual report to the Joint Committee on Housing, as follows:

MCCARTHY HITS BACK

October 4, 1951

The Hon. Guy M. Gillette,
United States Senate, Washington, D. C.
Dear Guy:

This is to acknowledge receipt of your letter of October 1 in which you offer me an opportunity to appear before your committee and answer Senator Benton's charges.

Frankly, Guy, I have not and do not intend to even read, much less answer, Benton's smear attack. I am sure you realize that the Benton type of material can be found in the Daily Worker almost any day of the week and will continue to flow from the mouths and pens of the camp-followers as long as I continue my fight against Communists in government.

With kindest personal regards, I am
Sincerely yours,
Joe McCarthy

McC:ct

Copy of Exhibit No. 5

The main outstanding example of what a builder of conventional houses can do was found in Columbus, Ohio, where very attractive veterans houses are being built in sizable quantities to be sold at approximately \$4,000.

From such facts the obvious questions which suggest themselves, particularly in the absence of any explanation from Senator McCarthy, are:

Are there other instances where Senator McCarthy received some consideration from persons or agencies that he was in a position to assist or hurt in his official position as a United States Senator?

How can Senator McCarthy justify acceptance of a \$10,000 fee from Lustron, which, in effect, was a fee being paid out of public funds, at a time when Lustron's continued operations and financing depended entirely upon the RFC, and which agency, in turn, was dependent upon the Congress and, more particularly, the Banking and Currency Committee, of which he was a member, for its continued authority and operation?

Did Senator McCarthy take advantage of Lustron's sensitive position and its need for continued government financing to induce its president, Carl Strandlund, to pay a fee, set by him at \$10,000, for a manuscript which was neither finished nor in publishable form?

Was there any connection between Senator McCarthy's recommendations for government aid to pre-fab manufacturers and his subsequent contacts with Lustron, which culminated in his receiving \$10,000 for the sale of his manuscript?

Was there any relationship between Senator McCarthy's position as a member of the Senate Banking and Currency Committee and his receipt of confidential information relating to the stock of the Seaboard Airlines Railroad, which was indebted to the RFC for sums in excess of \$15 million?

Does Senator McCarthy consider that his requests for the active assistance of the HHFA in the preparation of a housing manuscript, which he intended to sell, after he had recommended legislation to increase the salary of its administrator, to be ethical?

Whether Funds Supplied to Senator McCarthy To Fight Communism or for Other Specific Purposes Were Diverted to His Own Use

Sen. Joseph R. McCarthy, according to his own statement, as set forth in his publication entitled, *McCarthyism—The Fight for America*, published in 1952, "launched the public phase" of his fight "to expose Communists and Communist treason in government," on February 9, 1950, at Wheeling, W. Va.

Subsequent to this, there was widespread publicity

concerning Senator McCarthy's activities and reportedly some news commentators suggested that their listeners send contributions to assist the Senator.

The Subcommittee received unconfirmed reports that Senator McCarthy's office received a substantial number of contributions, some of which at least he was using for his own benefit and unrelated activities.

It was for this reason, therefore, that the Senator was asked . . . whether any funds collected or received to conduct activities, including those related to "Communism," were ever diverted and used for other purposes inuring to his personal advantage. His answer to this query as contained in his letter of December 1, 1952, was "No. . . ."

THE BENTLEY-VAN STRATEN TRANSACTION

On May 5, 1950, Senator McCarthy opened a special checking account at the Riggs National Bank, Pennsylvania Avenue at 15th Street N.W., Washington, D. C. The Subcommittee has reason to believe that the special account was opened and used by Senator McCarthy as a depository of funds received for anti-Communist activities.

However, on September 7, 1950, Senator McCarthy opened savings account No. 62950 with the National Savings and Trust Company, Washington, D. C., by depositing \$10,500. This deposit, represented by a deposit ticket dated September 7, 1950, consisted of \$500 in currency, a \$7,000 check drawn on a District of Columbia bank, and a check for \$3,000 drawn on a Michigan bank. Investigation developed that the \$3,000 item was a check drawn by Alvin M. Bentley on the Manufacturers National Bank of Detroit dated September 5, 1950. The \$7,000 check was traced to the Riggs National Bank, Dupont Branch, account of Mrs. Arvilla Bentley.

When interviewed in Owosso, Mich., on October 29, 1952, by an investigator for the Subcommittee, Mr. Alvin M. Bentley declared that he issued his check to Senator McCarthy to assist him in his fight against Communism in government, but declared that at Senator McCarthy's suggestion, the amount was considered a loan rather than a gift and that he took Senator McCarthy's five-year note as evidence of the indebtedness. He advised he believed the note was non-interest bearing. Mr. Bentley declared that there was no agreement as to the manner in which the funds were to be disbursed; that Senator McCarthy would not have accepted the money if there had been any conditions attached; and that he (Bentley) did not care how the money was expended so long as it was expended in

furtherance of the anti-Communist fight. Mr. Bentley volunteered further that he would be disappointed if he later learned that Senator McCarthy "had used the money for gambling or to advance his personal financial condition."

On Wednesday, November 26, 1952, investigators of the Subcommittee attempted to interview Mrs. Arvilla P. Bentley at her home in Washington, D. C., by telephone, but she declared that she was confined to her home by illness and her physician had ordered her not to see anyone. When asked if she had ever given any money to Senator McCarthy, she replied that she had never given Senator McCarthy any money for political purposes. When she was asked if she had ever loaned money to Senator McCarthy, she stated that she would decline to answer that question until she had an opportunity to consult her attorney. Her attorney was subsequently interviewed and he advised that he would attempt to arrange for investigators to interrogate Mrs. Bentley on Monday, December 1, 1952. When Mrs. Bentley's attorney was interviewed by tele-

phone on that date, he advised that he had been informed that Mrs. Bentley had gone to Florida on Friday, November 28, 1952, on orders of her physician, and that her whereabouts were unknown. . . .

With respect to the disposition of the funds obtained from the Bentleys and placed in this savings account, investigation revealed the following: On September 29, 1950, approximately three weeks after the savings account was opened, Senator McCarthy, by letter to the National Savings and Trust Company, authorized Miss Jean F. Kerr, his secretary, to withdraw \$10,000 from the account.

The funds withdrawn were used to purchase a draft at the same bank, drawn on the Continental Illinois National Bank and Trust Company of Chicago and payable to Henry J. Van Straten . . . a long-time friend of Senator McCarthy. The draft was endorsed by Van Straten and forwarded to Wayne Hummer and Company, and on October 3, 1950, the \$10,000 was credited to Van Straten.

Upon deposit of the \$10,000 with Wayne Hummer

MCCARTHY HITS BACK

Senator Guy Gillette,
Chairman, Elections Subcommittee,
United States Senate, Washington, D. C.

Dear Mr. Chairman:

As Chairman of the committee investigating Benton's charges, I am sure you are aware that Political Affairs, the official Communist Party publication which sets forth the current tasks and problems of the Party, has ordered Communist Party members to "support the Benton Resolution to oust McCarthy from the Senate." (Political Affairs, October, 1951, page 29.) This publication has been labelled by the House Committee on Un-American Activities as the theoretical organ of the Communist Party.

Shortly before Benton appointed himself to lead the fight to smear and discredit McCarthy, the Communist Party through its then secretary, Gus Hall, (who has since been jailed) officially proclaimed that all Communist Party members must "yield second place to none in the fight to rid our country of the fascist poison of McCarthyism." (Daily Worker, May 4, 1950.)

The Communist Party has officially proclaimed and published in the Daily Worker that one of its major tasks is to discredit and smear McCarthy out of public office.

The Communist Party of Washington and Maryland put out a directive to all members of the Communist Party under the heading, "Unity Can Defeat McCarthyism." This directive was signed by Philip Frankfeld (who has since been jailed). It contains the following order to Communist Party members: "Remember the fact that the main enemy is McCarthyism and all of its workings and direct your main fight against it."

All of the above objectives of the Communist Party have been adopted by William Benton as his objectives also. You must agree that the aims and objectives of both the Communist Party and Benton are identical insofar as McCarthy is concerned. The only question is whether it is knowingly or through stupidity that Benton

is trying to perform what the Communist Party has officially and repeatedly proclaimed its No. 1 task.

Lenin once said, "We can and must write in a language which sows among the masses hate, revulsion, scorn, and the like toward those who disagree with us."

I am sure that you would never knowingly allow your committee to serve the Communist cause. However, the damage done is the same regardless of whether it is knowingly and deliberately done. There can be no question in your mind or in anyone's mind that this year-long investigation by your Subcommittee would never have been commenced if I had not been exposing Communists in government. Already 10 of those whom I have exposed have either been convicted or removed under the Loyalty Program. This is only a small indication of how badly the Communist Party is being hurt. The Communists will have scored a great victory if they can convince every other Senator or Congressman that if he attempts to expose under-cover Communists, he will be subjected to the same type of intense smear, even to the extent of using a Senate Committee for the purpose. They will have frightened away from this fight a vast number of legislators who fear the political effect of being inundated by the Communist Party line sewage.

If you have evidence of wrong doing on McCarthy's part, which would justify removal from the Senate, or a vote of censure by the Senate, certainly you have the obligation to produce it. However, as you well know, every member of your committee and staff privately admits that no such evidence is in existence. It is an evil and dishonest thing for the Subcommittee to allow itself to be used for an evil purpose. Certainly the fact that the Democrat Party may temporarily benefit thereby is insufficient justification. Remember the Communist Party will benefit infinitely more.

Sincerely yours,

Joe McCarthy.

Copied from Exhibit No. 18

and Company, Straten purchased on margin the following:

Purchase 10/ 2/50....15,000 bu. January Soy Beans @ \$2.37¼
Purchase 10/10/50.... 5,000 bu. January Soy Beans @ \$2.39½
Purchase 10/19/50.... 5,000 bu. January Soy Beans @ \$2.44
Purchase 10/27/50.... 5,000 bu. January Soy Beans @ \$2.57½

As of November 27, 1950, unrealized profit in respect to the 30,000 bushels of January soy beans was approximately \$17,500, and sufficient to margin the account. On that date, Wayne Hummer and Company issued its check #10 to Henry J. Van Straten drawn on the First National Bank, Appleton, Wisconsin, for \$10,000. The check was endorsed to Joe McCarthy and deposited by Senator McCarthy in his general account at the Riggs National Bank on December 4, 1950. . . .

. . . . When Van Straten was interrogated by a Subcommittee investigator in regard to the \$10,000 market operation, he declared that the money used was his own and that the trading decisions were the result of his own interpretation of market conditions. When informed that information indicated that the \$10,000 used to open the commodity account on October 3, 1950, was not his, Van Straten stated that he considered borrowed money his personally owned funds, but declined to give further information.

The result of speculative operations of Van Straten which were financed by himself, as contrasted with the result of the transaction financed by Senator McCarthy, should be noted. . . . In contrast to [his] losses totaling \$7,043.27, a profit of \$17,354.50 was made between October 3, 1950, and January 2, 1951, on the transactions financed by Senator McCarthy with money obtained from the Bentleys.

In view of the above facts the following questions remain unanswered:

Why would Senator McCarthy borrow money for his fight against Communism, as indicated by Mr. Alvin Bentley, the source of \$3,000 of the \$10,000 involved, for the purpose of depositing it in a savings account?

Was the \$7,000 obtained from Mrs. Bentley on the same date also to aid Senator McCarthy in his alleged anti-Communitistic fight?

Was the \$3,657 obtained from Mrs. Bentley in March, 1951, and deposited by Senator McCarthy in his general account on March 28, 1951, for the same purpose and, if so, why was it deposited in his general account?

Did Senator McCarthy give Mrs. Bentley notes for the monies obtained?

Why did Senator McCarthy give Mr. Alvin Bentley

a five-year non-interest-bearing note for \$3,000, when Mr. Bentley was willing to donate that amount and did it have any bearing with respect to the payment of future income taxes?

If Senator McCarthy obtained at least \$3,000 of the \$10,000 involved, as reported by Mr. Bentley, for his anti-Communitistic fight, was not this money, in a sense, a trust fund?

Was the \$10,000 Van Straten commodity speculation actually for the benefit of Senator McCarthy, or a partnership account?

Why would Senator McCarthy speculate with funds advanced to him for his anti-Communitistic drive, or loan such funds to a friend for speculative purposes, particularly when the friend's only experience in the commodity market was limited and unsuccessful?

Did Senator McCarthy have confidential information with respect to the trend of the soybean future market? (Just prior to the transaction in question, the Commodity Exchange Authority of the Department of Agriculture conducted an investigation of alleged soybean market manipulation involving, among others, a number of Chinese traders.)

Was the \$10,000 Wayne Hummer and Company check, dated November 27, 1950, which Van Straten endorsed over to Senator McCarthy a return of the original investment and, if so, why was it deposited in Senator McCarthy's general account?

SENATOR MCCARTHY'S SPECIAL ACCOUNT

As previously stated, Senator McCarthy, on May 5, 1950, opened a special checking account at the Riggs National Bank. The opening deposit in this special account was in the total amount of \$1,292. . . .

Since the inception of this Special Account the following total deposits were made therein:

1950	\$15,428.52
1951	2,591.75
1952 (up to 11/4/52).....	2,712.70
Total	\$20,732.97

Considering the proximity of the date on which this special account was opened, May 5, 1950, to that of February 9, 1950, when Senator McCarthy began the so-called "public phase" of his fight against Communism, and considering the types of deposits made therein, it is believed logical to assume that the account was opened and used as a depository for funds received by Senator McCarthy to finance anti-Communist activities.

The deposit of May 11, 1950, included a check dated May 8, 1950, in the amount of \$1,000 drawn on the

Lee County Savings Bank, Fort Madison, Iowa, and signed "C. R. Sheaffer, by L. J. Frantz." . . . Mr. Frantz identified himself as secretary of the W. A. Sheaffer Pen Company, Fort Madison, Iowa, and also identified C. R. Sheaffer as Craig R. Sheaffer, president of the same company. He stated that Mr. Sheaffer had read newspaper accounts of "McCarthy's attack on Communists in government," and had written the Senator on May 1, 1950, commending the latter's efforts. Frantz also said that Mr. Sheaffer had offered, in his letter of May 1, to send Senator McCarthy \$1,000, if he needed it and providing that it would not be embarrassing for him, McCarthy, to accept it. Senator McCarthy, Frantz said, answered Mr. Sheaffer's communication by letter dated May 4, 1950. In this reply, McCarthy informed Sheaffer that he did have a lot of expenses in connection with his anti-Communist fight and would appreciate financial assistance. Thereafter, Frantz, on the instructions of Mr. Sheaffer, issued and sent to Senator McCarthy, Mr. Sheaffer's personal check for \$1,000. . . .

The deposit of June 23, 1950, included a check for \$500 drawn by "B. Peyton" on the Guaranty Trust Company, Fifth Avenue Office, New York, N. Y. "B. Peyton" was subsequently identified as Bernard Peyton, President, New York Air Brake Company, 420 Lexington Avenue, New York, N. Y. When interviewed, Mr. Peyton advised to the following effect:

He first met Senator McCarthy at a "businessmen's association" meeting, and was very much impressed with the Senator as a speaker. Following the Senator's speech, he asked Senator McCarthy how he could help, and the Senator replied that he could use contributions to run down the "rascals and Communists in government." A day or so later, on June 21, 1950, Peyton mailed Senator McCarthy a check, drawn on the Guaranty Trust Company of New York City, in the amount of \$500. . . .

There were a total of approximately 180 items charged against this special account, but only 78 of these items could be identified. The greater part of the items either were not available or were illegible.

Even though Senator McCarthy has refused to cooperate with the Subcommittee, the list of the payees of these checks is not being included in this report—lest it be said that an attempt was being made to expose Senator McCarthy's method of operations and his informants. However, at least without explanation, no connection could be established between many of the disbursements from this account and any possible anti-Communist campaign, including, for example, a check to the Collector of Internal Revenue for \$73.80 on October 2, 1950,

at a time when Senator McCarthy's Riggs general account appears to have been overdrawn; a check to his Administrative Assistant, Ray Kiermas, for \$1,300 on September 29, 1950, at a time when his general account reflected a balance of \$495.76; a "Cash" check of \$200 on October 20, 1950, when it appears his general account was overdrawn; and, as indicated previously in this report, a check for \$500 to "Cash," charged to the special account on September 5, 1950, which cash apparently was deposited in his savings account at the National Savings and Trust Company.

It is of possible significance that the deposits to Senator McCarthy's general account at the Riggs National Bank and the deposits to the account of his Administrative Assistant, Ray Kiermas, at the same bank, increased contemporaneously with the advent of the "public phase" of Senator McCarthy's "fight" to expose Communists and Communist treason in government.

	<i>McCarthy</i>		<i>Kiermas</i>
	<i>Regular</i>	<i>Special</i>	
1949	\$31,260.06		\$11,194.70
1950	34,171.32	\$15,428.52	26,526.90
1951	34,897.10	2,591.75	27,587.63
1952	27,851.68	2,712.70	19,000.00

. . . In view of the known disposition of certain funds, received to fight Communism, for other purposes the question naturally arose as to whether there were other payments made to Senator McCarthy for special purposes which were used by him in some other manner. . . .

Whether Senator McCarthy Used Close Associates and Members of His Family to Secrete Receipts, Income, Commodity and Stock Speculation and Other Financial Transactions for Ulterior Motives

SENATOR MCCARTHY'S 1944 PRIMARY CAMPAIGN FOR THE SENATE

In 1942, Senator McCarthy ventured into the security market with a modest investment of approximately \$2,200. Through the medium of a 40-percent margin account with Wayne Hummer and Company, Chicago, Ill., supported by sensational advances in security prices, he was enabled to build up his initial investment into such substantial proportions that in 1943 he realized a net profit of \$40,561.67. This profit was not withdrawn by him from his trading account until 1944.

Senator McCarthy was a candidate for the Republican nomination for United States Senator in the primary election held in Wisconsin on August 15, 1944. He was defeated by Sen. Alexander Wiley. "The Committee to Elect Joseph R. McCarthy to the US Senate," by Margaret F. Hagene, its secretary, filed affidavits with

the Secretary of State of Wisconsin on August 5, 1944, and August 18, 1944, reflecting receipts from the following:

May 12, 1944—Howard McCarthy (brother).....	\$1,100.00
May 12, 1944—Tim McCarthy (father).....	4,000.00
June 14, 1944—Roman Kornely (brother-in-law)....	3,000.00
June 14, 1944—Howard McCarthy.....	3,100.00
August 2, 1944—Howard McCarthy.....	1,400.00
August 4, 1944—Howard McCarthy.....	5,000.00
	\$17,600.00
Others.....	2,208.95
	\$19,808.95

In that these relatives of Senator McCarthy do not appear to be people of substantial means and for the further reason that Senator McCarthy made a profit on securities transactions in excess of \$40,000 in 1943 and withdrew most of these profits in 1944 prior to the August 14 primary election, it might appear possible that the \$17,600 allegedly contributed by Senator McCarthy's relatives, were, in fact, personal expenditures of Senator McCarthy. . . .

In 1944, Senator McCarthy received \$11,100 in government bonds and, during that year, he deposited \$11,250 with Dean Witter and Company, Los Angeles. These two items, together with the \$17,600 allegedly contributed by his relatives to his 1944 primary campaign approximate the total withdrawals from Wayne Hummer and Company in 1944, which have not been traced. . . .

Although it would not appear that Senator McCarthy would have permitted Margaret F. Hagene to file an affidavit containing information which Senator McCarthy knew to be false, it is significant to note that the "Committee to Elect Joseph R. McCarthy to the US Senate" reported that it received \$5,100 from Howard and Tim McCarthy on May 12, 1944, and the records of Wayne Hummer and Company reflect that Senator McCarthy withdrew stock-market profits totaling \$17,925.55 between March 1, 1944, and May 12, 1944, which are not otherwise accounted for. . . .

The Committee reportedly received \$6,100 from Roman Kornely and Howard McCarthy on June 14, 1944, and the Wayne Hummer and Company records reveal that Senator McCarthy withdrew stock transaction profits of \$7,000 between May 24, 1944, and June 7, 1944. The Committee reportedly received \$6,400 from Howard McCarthy on August 2 and 4, 1944, and the records of the broker disclose that between June 28, 1944, and July 14, 1944, Senator McCarthy withdrew \$13,800 in profits. Although the figures cited are not conclusive, it is singular that on or about the dates that the Committee received amounts from relatives of Sen-

ator McCarthy that Senator McCarthy withdrew stock-market profits somewhat in excess of the amounts reported by the Committee. It might be of further significance that the only amounts reported as being received from relatives of Senator McCarthy in his 1946 campaign for the primary and general elections are:

Roman Kornely (brother-in-law).....	\$ 50.00
Howard McCarthy (brother).....	49.50
Olive Kornely (sister).....	49.50
Tim McCarthy (father).....	554.74

WILLIAM P. MCCARTHY TRANSACTIONS

William P. McCarthy, a brother of Senator McCarthy, is employed in Chicago, Ill., as a truck driver. He resides in a modest home at 1938 Wolfram Street, Chicago, and appears to be a man of only moderate means. There is no evidence that William P. McCarthy had any experience in the commodity market prior to August 27, 1948.

On or about August 27, 1948, William P. McCarthy opened an account with Daniel F. Rice and Company by depositing \$10,000. When interviewed on June 19, 1952, by a Subcommittee investigator, William P. McCarthy declared that the \$10,000 was received by him from Senator McCarthy, and represented the repayment of previous loans totaling \$7,000 which he had made to Senator McCarthy since 1927, and \$3,000 representing a loan by the Senator to him.

Investigation revealed that the \$10,000 deposited with Daniel F. Rice and Company was comprised of three items: (1) a bank draft drawn on Drovers National Bank by the Appleton State Bank on August 25, 1948, in favor of Ray Kiermas (Senator McCarthy's Administrative Assistant) for \$5,000; (2) check for \$1,223.72 on the account of Ray Kiermas at Riggs National Bank, dated August 30, 1948; and (3) an item for \$3,776.28, drawn on the Appleton State Bank, which that Bank has been unable to identify.

William P. McCarthy began his market operations on September 23, 1948. . . .

On March 19, 1951, an account was opened with Daniel F. Rice and Company in the name of Julia Connolly, which is the maiden name of Mrs. William P. McCarthy. The account was opened with a cash deposit of \$7,000. . . . When interviewed on June 19, 1952, William McCarthy stated that the account was opened in the name of Julia Connolly with the idea of concealing the account in the event of an investigation of Senator McCarthy's affairs.

The over-all trading picture for both accounts shows that during the period of trading operations, Septem-

ber 23, 1948, to September 4, 1952, a total of 905,000 bushels of commodities were traded in for a net profit of \$5,546.91. Of the total bushels traded, 215,000 bushels represented short trades resulting in a net profit of \$3,668.00, and 690,000 bushels represented long trades resulting in a net profit of \$1,878.91. Commodities traded in were rye, corn, wheat, barley, and beans.

To be noted are the short operations. Short selling involves much greater risk than long, and short sales of commodities is a most dangerous form of speculation, in general indulged in only by the most astute and experienced operators. The first two operations in the William P. McCarthy account involved a short sale of 10,000 bushels of July wheat on September 23, 1948, and 5,000 bushels of December beans on the same day. Apparently, he had no previous experience in either security speculation or commodity speculation and questions arise as to who or what influenced these trading operations. . . .

According to the Wisconsin State Income Tax Returns, Senator McCarthy paid William P. McCarthy interest of \$2,258 in 1949. No portion of this was deposited by William P. McCarthy in the savings account with the First National Bank of Chicago and

it was not reported as 1949 income by William P. McCarthy, although he did report this as 1950 income. None of the \$2,025 paid to William P. McCarthy in 1950 by Senator McCarthy is shown by the Senator as interest expense in his 1950 State Income Tax Returns. There is no indication that William P. McCarthy has ever had the financial capacity to loan anyone an amount that would earn interest of \$2,258 in one year, or even that much interest in several years. . . .

In view of the above facts the following questions remain unanswered.

Was the \$10,000 deposited by William P. McCarthy with Daniel F. Rice and Company on August 27, 1948, received directly or indirectly from Senator McCarthy? If the \$10,000 or any portion of it was advanced by Ray Kiermas, why was the eventual return of this amount paid to the Appleton State Bank for the benefit of Senator McCarthy?

Why did Senator McCarthy advance money to William P. McCarthy to speculate in the commodity market at a time when he was heavily indebted to the Appleton State Bank and the Bank was constantly calling on him for a reduction in the loan or an increase in the collateral?

MCCARTHY HITS BACK

May 11, 1952

Senator Guy Gillette
Senator A. S. Monroney
Senator Thomas Hennings
Gentlemen:

I have learned with regret that your public hearings are to open tomorrow without the presence of your star witness. You have my deepest sympathy.

Some Doubting Thomases might question the importance of this witness, except that after nearly a year of investigating, you and your staff decided that the public hearings must open with his intelligently presented, clear-cut expose of the dangers of McCarthyism. The Nation owes you a debt of gratitude for so carefully and honestly developing this witness who could have advised the Senate and the voters of Wisconsin to get rid of McCarthy. If only you had set the hearings 10 days earlier before the judge committed your star witness to an institution for the criminally insane, you would not have been deprived of this important link in the chain of evidence against McCarthy.

Some shallow thinkers may say that you gentlemen are dishonest to have planned to use your committee as a sounding board to headline the statements of a witness after your staff had reported he was mentally unbalanced. I beg you not to let this distract you from the honest, gentlemanly job you are doing. Those critics fail to realize that everything is ethical and honest if it is done to expose the awfulness of McCarthyism. After all, had not your staff reported that while this witness was mentally deranged, his mental condition would help to make him an excellent witness for you?

Certainly, you cannot be blamed for not knowing that some unthinking judge would do the country the great disservice of committing him to a home for the insane before the committee

had a chance to publicize and place its stamp of approval on his statements about McCarthy. Certainly, you cannot be blamed for being unable to distinguish between his testimony and the testimony of the other witness, Benton, who asked for and was given the right to appear before your committee and publicly "expose" McCarthy.

The Communist Party, which is also doing an excellent job of exposing the evils of McCarthyism, has repeatedly proclaimed that no stone be left unturned in the effort to remove McCarthy from public life. As Lenin said, "resort to lies, trickery, deceit, and dishonesty of any type necessary," in order to destroy those who stand in the way of the Communist movement.

I ask you gentlemen not to be disturbed by those who point out that your committee is trying to do what the Communist Party has officially proclaimed as its No. 1 task. You just keep right on in the same honest, painstaking way of developing the truth. The thinking people of this nation will not be deceived by those who claim that what you are doing is dishonest. After all, you must serve the interests of the Democrat Party—there is always the chance that the country may be able to survive. What better way could you find to spend the taxpayers money? After all, isn't McCarthy doing the terribly unpatriotic and unethical thing of proving the extent to which the Democrat Administration is Communist ridden? Unless he can be discredited, the Democrat Party may be removed from power.

Again may I offer my condolences upon your failure to have your star witness present as planned to open the testimony. Do you not think the judge who committed him should be investigated?

Sincerely yours,
Joe McCarthy

Copied from Exhibit No. 21

Did Senator McCarthy speculate in the commodity market in the name of his brother, William P. McCarthy, or was the account with Daniel F. Rice and Company a partnership account?

Were the payments totaling \$2,025 by Senator McCarthy to William P. McCarthy in 1950 made for the purpose of bolstering the Daniel F. Rice and Company account, and, if so, why were they not paid directly to the broker? . . .

THE APPLETON STATE BANK TRANSACTIONS

On February 13, 1945, the Appleton State Bank, Appleton, Wis., loaned Senator McCarthy \$1,800 which was used to open a checking account with that bank. In July, 1945, the bank loaned Senator McCarthy \$73,000 which was used by the Appleton State Bank to purchase, through its omnibus trading account with Wayne Hummer and Company, 1,000 shares of Allegheny Corporation Preferred Stock and \$81,000 Central of Georgia Railway Company five percent Series C Bonds due April 1, 1959. These securities were used to collateralize the loan. Additional Central of Georgia Railway five percent 1959 Bonds purchased through his Wayne Hummer and Company trading account were pledged by Senator McCarthy to the bank. Senator McCarthy also received \$15,960.98 from Wayne Hummer and Company on July 11, 1945, which was used to purchase \$69,000 Central of Georgia Railway Company five percent Series C bonds due April 1, 1959, as additional collateral against his Appleton State Bank indebtedness of \$75,000. . . .

Up to and including December 21, 1945, Senator McCarthy's indebtedness to the Appleton State Bank had been reduced to \$20,364.64, largely from the proceeds of the sale of collateral, but including \$9,959.23 from an undetermined source. On that date, Senator McCarthy received a loan of \$149,176.06 from the Appleton State Bank. These funds were used to purchase, through the omnibus account of the bank with Wayne Hummer and Company, 5,000 shares of Chicago, Milwaukee, St. Paul and Pacific Railroad Company common stock, which stock was pledged against the indebtedness. This loan increased Senator McCarthy's indebtedness to \$169,540.70, which was \$69,540.70 in excess of the bank's statutory loan limitation. The appearance of compliance with statutory requirements was created by transferring, on December 26, 1945, \$69,540 to a loan ledger sheet in the name of H. F. McCarthy, a brother of Joseph R. McCarthy. Securities to collateralize the transferred balance of \$69,540 owned by Senator McCarthy were transferred. In April and May,

1946, proceeds from the sale of 2,400 shares of this stock sold through the omnibus account of the Appleton State Bank, plus \$5,562.54 from an undetermined source, liquidated this fictitious H. F. McCarthy loan. . . .

The over-all picture of Senator McCarthy's loan at the Appleton State Bank, shows he was loaned a total of approximately \$248,000 during the period February 13, 1945, to September 14, 1951. The major part of this \$248,000, a sum aggregating \$226,000, was loaned in 1945. The largest outstanding balance at any time was \$170,000. The borrowed funds were used for speculation in securities and the collateral, for the greater part, consisted of securities purchased with the borrowed funds. The loans were liquidated as follows:

Proceeds of collateral sold and income from dividends	\$190,116.96
Funds from Timothy McCarthy.....	2,000.00
Funds from F. J. Sensenbrenner.....	14,644.66
Untraced funds	39,900.89
Checks from Senator McCarthy.....	1,242.43
	\$247,904.94

Untraced funds totaling \$39,900.89 could not be traced to proceeds of securities sold, dividends or bank accounts of Senator McCarthy. Of this untraced total, \$28,401.06 was credited to Senator McCarthy's indebtedness in 1946, a year during which his security speculations resulted in a net realized loss of in excess of \$10,000, and a year in which he won the Republican nomination for United States Senator. This \$39,900 included round amount credits of \$5,000, \$9,000, \$1,000, \$2,500, \$1,500 and \$3,500.

With reference to the loan of \$20,000 by the Appleton State Bank to Senator McCarthy early in January, 1948, it should be noted that the loan was made against a \$20,000 note of Senator McCarthy endorsed by Russell M. Arundel, a Washington representative of the Pepsi-Cola Corporation.

In the latter part of 1947, Matt Schuh, the President of the Appleton State Bank and apparently a close friend of Senator McCarthy, prodded by his Board of Directors and probably by the State Banking Department, urged upon Senator McCarthy the immediate necessity of reducing his indebtedness to the bank by \$15,000 or \$20,000. After several communications back and forth between Mr. Schuh and Senator McCarthy, the bank loaned the Senator \$20,000 on January 3, 1948. The borrowed funds were used to purchase 600 shares of Chicago, Milwaukee, St. Paul and Pacific Railroad preferred stock. This increase in an already hazardous loan was directly contrary to the

expressed wishes of the Board of Directors of the bank whose position was probably influenced by Examiners of the State Banking Department and possibly the FDIC. . . . At no time was any attempt made to collect on this note from the endorser, Russell M. Arundel. . . .

Of particular interest indicating further the lengths to which Mr. Schuh, President of the Appleton State Bank, went in respect to Senator McCarthy's loan, is an arrangement made in April, 1947, regarding interest payments on Senator McCarthy's note. This operation permitted Senator McCarthy to pay the interest due in cash, but to have the cash applied to the loan principal and set up interest notes in the amount of the interest paid.

As of early November, 1948, the indebtedness of Senator McCarthy to the Appleton State Bank was \$72,000. He had sustained net realized loss in the stock market of \$28,000 in 1947 and \$35,000 in 1948. As of November 22, 23, 24, 25 and 26, 1948, his checking account at the Riggs National Bank, Washington, D. C., was overdrawn. The Appleton State Bank was demanding that he do something about the Arundel note and suggested that they use the \$10,000 savings account of Ray Kiermas, an employee in Senator McCarthy's office, to reduce the overdue \$20,000 Arundel note. This savings account of Ray Kiermas was at this time standby collateral for Senator McCarthy's loan. This figure of \$10,000 is to be noted as on November 12, 1948, Senator McCarthy received the \$10,000 fee from Lustron Corporation which was used, not to reduce his Appleton State Bank indebtedness, but to purchase 450 shares of Seaboard Airlines Railroad common stock, which was delivered to the Appleton State Bank as much needed collateral for the loan.

That this \$10,000 Lustron fee was a very limited, temporary solution of the loan collateral situation is indicated by early 1949 letters between the Appleton State Bank and Senator McCarthy. In response to urgent requests for more collateral \$10,000 was transferred from a commodity trading account at Daniel F. Rice and Company, Chicago, Ill., in the name of William P. McCarthy. . . .

This \$10,000 from Daniel F. Rice and Company provided no solution to the margin situation as evidenced by letters between the Appleton State Bank and Senator McCarthy from June 2, 1949, to May 2, 1950. After May, 1950, the pressure in respect to sufficient collateral for the loan appears to have lessened due to appreciation in pledged Seaboard Airlines Railroad stock and substantial collateralization of the loan by assets of Ray Kiermas. . . .

APPLETON STATE BANK INTEREST MANIPULATION

Under date of April 15, 1947, Senator McCarthy first broached the plan to pay the interest due on his notes but apply the payments to the principal and set up interest notes for the interest paid. Subsequently, when most advantageous to Senator McCarthy, and at his discretion, the interest note was to be paid and the payment taken as a tax deduction against income. Senator McCarthy's letter dated July 12, 1947, to Matt Schuh, President of the Appleton State Bank, again stresses the income-tax feature. . . . In 1949, Senator McCarthy elected to use interest paid in this manner totaling \$6,810.28 as a deduction against income on his State and Federal Income-Tax Returns. In 1946, 1947 and 1948, deductions of this \$6,810.28 were not needed to establish a loss in respect to his Wisconsin income-tax returns, as filed, because losses on security transactions operated to eliminate taxable income. In connection with Senator McCarthy's 1949 Wisconsin State Income-Tax Return, as filed, he listed loss on security transactions of only \$2,290 against gross income of \$17,120. An interest deduction of \$15,172.54, of which this \$6,810.28 was a material part, operated to eliminate taxable income for that year.

On Senator McCarthy's 1949 Federal Income-Tax Return, this \$6,810.28 deduction furnished a substantial offset to the \$10,000 Lustron fee, which was received in 1948 but reported as income on his 1949 federal return. It might be observed that Senator McCarthy reported this \$10,000 as 1948 income on his Wisconsin tax return for that year upon instructions from J. L. Tibbetts, Assessor of Incomes, in answer to an inquiry from Senator McCarthy.

The Wisconsin Department of Taxation, after investigation, disallowed this 1949 deduction of \$6,810.28 on the basis that "this interest was actually paid in cash in the years 1946 and 1947. . . ."

SENATOR MCCARTHY'S AND RAY KIERMAS' BANK ACCOUNTS

From January 1, 1948, to November 12, 1952, Senator McCarthy deposited a total of \$172,623.18 in his account at the Riggs National Bank, Washington, D. C., and during the same period, Ray Kiermas deposited a total of \$96,921.26. . . .

It is to be noted that of the \$172,623.18 deposited by Senator McCarthy a total of \$59,592.52 has not been identified as to source, including approximately \$19,000 in currency deposited. In respect to the \$96,921.26 deposited by Ray Kiermas, a total of \$44,908.43 has not been traced to its source.

... Of the \$96,921.26 deposited by Ray Kiermas from 1948 through 1952, a total of \$29,230 (30 percent of the total deposited) represented currency deposits, and of this \$29,230, approximately \$21,000 represented individual deposits in excess of \$300 each, and 12 individual deposits ranging in amounts from \$700 to \$2,405 accounted for \$14,000 of this \$21,000.

Substantial funds were passed to and from Senator McCarthy and Ray Kiermas. From March, 1947, to May, 1952, \$16,386.22 passed from Ray Kiermas to Senator McCarthy, and \$13,647.92 from Senator McCarthy to Ray Kiermas.

Illustrative of their circuitous financial transactions is a December, 1951, transaction. On December 5, 1951, Senator McCarthy received a loan from the Riggs National Bank, Washington, D. C., of \$6,000 against his demand note secured by 200 shares of Seaboard Airlines Railroad Company common stock. With this \$6,000 he purchased two Cashier's Checks, one in the amount of \$4,500 and one for \$1,500. The \$4,500 check he deposited in his regular checking account at the Riggs National Bank on December 21, 1951, together with a \$2,000 check of Ray Kiermas for a total deposit of \$6,500. The Cashier's Check in the amount of \$1,500 was deposited in the Riggs National Bank account of Ray Kiermas on December 10, 1951. There may be a reasonable explanation for these transactions, but in the absence of such explanation, obvious questions arise.

Why the use of Cashier's Checks? Why was not the \$6,000 loan credited directly to Senator McCarthy's account? Why the exchange of checks between Senator McCarthy and Ray Kiermas?

Whether Senator McCarthy's Activities on Behalf of Certain Special Interest Groups, Such as Housing, Sugar and China, Were Motivated by Self-Interest

Housing . . . The Subcommittee has little to add to what has already been stated previously under the heading of the Lustron fee payment wherein the receipt of money from the Robert Byers firm and other matters were also discussed. Other questions which naturally come to mind from these facts as previously set forth are: Was Senator McCarthy's appearance at Columbus, Ohio, in connection with the promotion of Byers' homes related to his position as Vice-Chairman of the Joint Housing Committee and membership on the Senate Banking and Currency Committee? . . .

Sugar . . . Senator McCarthy was a member of the Senate Banking and Currency Committee, and its Subcommittee on Sugar, since January 6, 1947. As sugar rationing and price controls were still in existence during 1947, the determination as to whether controls were to

be continued in any form, or terminated, was the responsibility of the Congress, and particularly the Banking and Currency Committees. The Department of Agriculture advocated the continuation of sugar controls, whereas the Pepsi-Cola Company and its hundreds of bottlers throughout the country, among others, urged decontrol.

... Senator McCarthy was greatly over-extended in his loan position at the Appleton State Bank from the time of his election to the Senate in November, 1946, and throughout 1947. On or about December 5 or 6, 1947, Senator McCarthy hurriedly conferred with Russell M. Arundel to apprise him of his financial predicament and the pressing notes held by the Appleton State Bank, and Arundel endorsed a \$20,000 six-months note for Senator McCarthy, on or about December 8, 1947, which was used as collateral for Senator McCarthy's Appleton Bank loans.

His acceptance of a \$20,000 favor from the Washington representative of the Pepsi-Cola Company at the very time he was attacking the government for its manner of handling sugar control makes it difficult to determine whether Senator McCarthy was working for the best interests of the government, as he saw it, or for Pepsi-Cola.

In view of the fact that Senator McCarthy has failed to appear before this Subcommittee to offer his explanation of the aforementioned transactions the following questions remain unanswered:

Was it proper for Senator McCarthy, while serving on the Banking and Currency Committee and its Subcommittee on Sugar, to seek and accept the endorsement on his Bank Note for \$20,000 by a person vitally interested in sugar legislation?

Was there any relationship between Arundel's endorsement of Senator McCarthy's \$20,000 note on or about December 8, 1947, and Senator McCarthy's special appearance to interrogate the Army Secretary on December 9, 1947, before the Committee on Appropriations regarding the Army's purchase of Cuban sugar, which purchase had been previously criticized by Pepsi-Cola?

China. Unconfirmed reports were received by the Subcommittee to the effect that when Senator McCarthy began his "public phase" of his fight against Communism early in 1950, his activities in this direction were general but that subsequently he began to follow what was termed the line of the China Lobby.

As an example of this, it was pointed out that Gen. George C. Marshall has been one of the individuals attacked by the "China Lobby" and on June 14, 1952, Senator McCarthy delivered a 65,000-word speech in

the Senate attacking General Marshall. It was also inferred that Senator McCarthy may have received financial assistance or other considerations from members of this group. . . .

In fairness to Senator McCarthy, it should be said that the Subcommittee has not received any evidence to date reflecting that he received money from members of the China Lobby.

It has been ascertained that Mr. Alfred Kohlberg, a New York City importer, frequently identified as connected with the China Lobby, sent Senator McCarthy a \$500 check to assist him in his fight against Communism and that Senator McCarthy returned this by letter of April 11, 1950, on the grounds that, "it might be misconstrued by left-wing commentators." There was, however, information developed incident to the Subcommittee investigation that there was contact between Senator McCarthy's office in Washington and Alfred Kohlberg in New York City on at least nine separate occasions during the period from April to September, 1952.

Whether Loan or Other Transactions Senator McCarthy Had With Appleton State Bank or Others Involved Violations of the Tax and Banking Laws

. . . The Wisconsin Statutes published in 1939 provide in Section 221.29:

Limit of Loans. (1) The total liabilities of any person . . . to any bank, for money borrowed . . . shall at no time exceed 20 percent of the amount of capital stock and surplus of such bank or 15 percent of the amount of capital and surplus of such bank. . . .

Amendments to this section thereafter did not alter the foregoing limitation.

The Wisconsin Statutes published in 1949 provide in Section 221.29:

Limit of loans and investments. (1) (a) The total liabilities of any person . . . to any bank for money borrowed shall at no time exceed 20 percent of the capital stock and surplus or 15 percent of the capital and surplus of such bank. . . .

In 1945 and 1946, the Appleton State Bank had outstanding capital stock of \$200,000 and a surplus of \$300,000 with a loan limitation to one person of \$100,000.

Section 7 (a) of the Securities and Exchange Act of 1934 provides:

For the purpose of preventing the excessive use of credit for the purchase or carrying of securities, the Board of Governors of the Federal Reserve System shall, prior to the effective date of this section and from time to time there-

after, prescribe rules and regulations with respect to the amount of credit that may be initially extended and subsequently maintained on any security (other than an exempted security) registered on a national securities exchange. . . .

Regulation "U" issued by the Board of Governors of the Federal Reserve System pursuant to the provisions of Section 7 of the Securities and Exchange Act of 1934, as amended to July 20, 1949, provides in part as follows:

On and after May 1, 1936, no bank shall make any loan secured directly or indirectly by any stock for the purpose of purchasing or carrying any stock registered on a national securities exchange in an amount exceeding the maximum loan value of the collateral, as prescribed from time to time for stocks in the supplement to this regulation and as determined by the bank in good faith for any collateral other than stocks. . . .

The margin requirements in effect between February 5, 1945, and July 4, 1945, was 50 percent and between July 5, 1945, and January 20, 1946, it was 75 percent. By the terms of Regulation "U," the bank between February 5, 1945, and July 5, 1945, was unable to legally loan money for carrying stock registered on a national securities exchange in excess of 50 percent of the value of the stock, and between July 5, 1945, and January 20, 1946, in excess of 25 percent of the value of the stock.

Between December 21, 1945, and May 23, 1946, the loan to Joseph R. McCarthy was in excess of \$100,000, the loan limitation of the Appleton State Bank, and in violation of the Wisconsin bank statutes. For the purpose, ostensibly, of complying with the law, the Bank carried in a separate account that portion of the loan in excess of \$100,000 in the name of Howard McCarthy, and transferred an equitable amount of the collateral to the Howard McCarthy account.

The loan to Senator McCarthy was constantly in excess of the collateral requirements of the Bank, as evidenced by the numerous letters from the Bank to Senator McCarthy. It was under collateralized by the terms of Federal Reserve Board Regulation "U," which provided a margin requirement of 50 percent or greater at all times between February 5, 1945, and the present time.

The most flagrant disregard for the state banking laws and the Federal Reserve Board regulation was the financing by the Appleton State Bank of the acquisition by Senator McCarthy of 5,000 shares of Chicago, Milwaukee, St. Paul and Pacific Railroad stock in December, 1945. On December 21, 1945, the loan account of Joseph R. McCarthy was increased by \$149,176 raising

the balance to \$169,540.70, which was \$69,540.70 in excess of the bank's legal loan limit.

Whether Senator McCarthy Violated Federal and State Corruption Practice Acts in Connection With His 1944-46 Senatorial Campaigns or in Connection With His Dealings With Ray Kiermas

THE 1944 CAMPAIGN

... In addition to the alleged contributions to "The Committee to Elect Joseph R. McCarthy to the US Senate" by the relatives of Senator McCarthy, Joseph R. McCarthy personally executed an affidavit on August 7, 1944, reporting expenditures of \$2,741.33. If the alleged contributions by his relatives totaling \$17,600, were, in fact, his personal campaign expenses, it would indicate a total of \$20,341.33 expended by Senator McCarthy in the 1944 unsuccessful primary election. This, however, is not consistent with the affidavit executed by Senator McCarthy on September 20, 1944, which was filed with the United States Senate which states:

An independent Campaign Committee of which James J. Colby, 110 E. Wisconsin Ave., was Chairman received contributions and expended money in behalf of my candidacy but I have not information as to their account.

If Senator McCarthy actually expended \$20,341.33 of his personal funds on the unsuccessful primary, it would appear that this was in excess of the \$5,000 limitation provided by the laws of the state of Wisconsin.

The questions before the Subcommittee in this connection are:

What was the source of funds totaling \$17,600 allegedly contributed by Senator McCarthy's relatives to his 1944 primary campaign?

What disposition was made by Senator McCarthy of stock-market profits in excess of \$40,000 realized in 1943 and withdrawn from time to time in 1944?

Why did Senator McCarthy, who had \$40,000 at his disposal in 1944 call upon his relatives for financial assistance in connection with the 1944 primary campaign?

THE 1946 SENATORIAL CAMPAIGN

Section 599 of Title 18, U.S.C., provides that a candidate who promises an appointment to a public or private position in exchange for political support shall be fined \$1,000 or imprisoned for not more than one year, or both, and if the violation is willful, shall be fined \$10,000 and imprisoned for not more than two years, or both.

Ray Kiermas, Administrative Assistant to Senator McCarthy, is reported as a contributor to McCarthy's campaign and since his employment by Senator McCarthy has had many financial transactions with Senator McCarthy. The "Appleton McCarthy for Senator Club" reported a contribution from Ray Kiermas on January 25, 1946, of \$49.50. The "Milwaukee County McCarthy for Senator Club," by its secretary, Nathan W. Heller, reported a contribution from Ray Kiermas on March 28, 1946, of \$50. The "McCarthy for Senator Club," by its secretary, Urban P. Van Susteren, reported contributions from Ray Kiermas on May 3, 1946, of \$50, and on November 10, 1946, of \$468.80. A loan to this club of \$2,000 on October 18, 1946, was reported as repaid to Ray Kiermas on November 7, 1946.

On August 22, 1946, Senator McCarthy executed an affidavit which was filed with the United States Senate which stated in part as follows:

The Wisconsin State Republican organization and various McCarthy For Senator Committees did, I understand, spend money and perform acts for the promotion of my candidacy. As to the amount spent, contributions made, etc., I presently have no knowledge except from hearsay and rumor.

I exercised no supervision or control over the Republican State Voluntary Committee nor over the various McCarthy for Senator Clubs, etc.

Under the laws of Wisconsin each individual or committee that spent over \$50 in the promotion of the candidacy of anyone must file a complete verified financial statement with the Secretary of State of Wisconsin. I don't believe that I am entitled to obtain a copy of such statements. I assume, however, that if your committee will write the Secretary of State he would be glad to send you a verified copy of statements filed by any committee or club which was working for my nomination.

Ray Kiermas sold his grocery on or about August 31, 1946, after the Wisconsin primary election in which Joseph R. McCarthy won the Republican nomination for US Senator. Kiermas opened an account with the Appleton State Bank on August 31, 1946, by depositing \$9,000, the proceeds from the sale of the grocery. On September 6, 1946, Kiermas pledged \$20,000 par value Central of Georgia Railway Company bonds with the Appleton State Bank as additional collateral for Senator McCarthy's loan with the Bank. On the same date, by another instrument, he pledged 100 shares of Burroughs Adding Machine Company no par value stock and 50 shares of Hecla Mining Company as security for the Senator's loan. On October 10, 1946, Ray

Kiermas and Dolores Kiermas pledged a \$5,000 real-estate mortgage with the Bank as additional security for the Senator McCarthy loan.

Upon taking the oath of office on January 3, 1947, Senator McCarthy appointed Kiermas to his staff and he is Senator McCarthy's Administrative Assistant at the present time. He has drawn a salary of in excess of \$7,000 each year and Dolores Kiermas, his wife, has also been on Senator McCarthy's payroll since 1947 and has drawn a salary which at intervals has reached approximately \$7,000 a year. Senator McCarthy has resided in Washington with Mr. and Mrs. Kiermas since January, 1947.

On May 14, 1947, Kiermas pledged \$10,000 of his savings account with the Appleton State Bank as additional collateral for Senator McCarthy's loan, and on October 13, 1948, pledged 100 shares of Seaboard Air-line Railroad Company stock. On February 17, 1949, Kiermas pledged 100 shares of Potomac Electric Power Company \$10 par value common stock as additional collateral for the Senator's loan.

Beginning early in 1947 and continuing to the present time, there have been numerous transactions and transfers of cash between Senator McCarthy and Kiermas, and it is impossible to determine if these involve transactions between the two.

Of course, there is no law against friendship and the Subcommittee feels sure that Mr. Kiermas' acts were inspired by friendship and loyalty. However, the facts as set forth provoke logical questions as to whether Senator McCarthy took advantage of Mr. Kiermas, whether Senator McCarthy promised Kiermas a position in exchange for political and financial support and whether Kiermas has been required to furnish Senator McCarthy financial assistance since his employment by the Senator. Only Senator McCarthy or Mr. Kiermas can supply the answers.

Conclusions and Recommendations

The Subcommittee itself is not making any recommendations in this matter. The record should speak for itself. The issue raised is one for the entire Senate.

This report and the Subcommittee files, of course, will be available to the Department of Justice and Bureau of Internal Revenue for any action deemed appropriate by such agencies.

This does not, however, resolve the issue presented by S. Res. 187, which is a matter that transcends partisan politics and goes to the very core of the Senate Body's authority, integrity and the respect in which it is held by the people of this country.

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